

## **Fact Sheet on U.S.-Korea Economic Relations**

### **U.S. – Korea Trade**

- The United States remains Korea's most important trade and investment partner. As the 12<sup>th</sup> largest economy globally and the 7<sup>th</sup>-largest U.S. trading partner, Korea is also immensely important to the United States.
- In 2003, Korea imported \$179 billion worth of goods while exporting \$194 billion. Of Korea's imports, some \$25 billion was goods from the United States. Our bilateral trade deficit was just under \$9 billion in 2003.
- In the high-tech sector, Korea is America's 5<sup>th</sup> largest market; over 40% of U.S. exports to South Korea are in this sector. In agriculture, Korea is the 5<sup>th</sup> largest export market for the United States.
- Top U.S. exports to Korea include:

Semiconductors	\$ 5.3 billion
Chemicals	\$ 4.2 billion
Agricultural and fisheries	\$ 3.0 billion
Computers	\$ 0.8 billion

### **U.S. Investment in Korea**

- In 2003 Foreign Direct Investment (FDI) in South Korea by U.S. companies totaled \$1.2 billion. From 1962 to 2003, the total FDI stock in South Korea by U.S. companies reached \$27.5 billion. The United States is the top foreign investor in South Korea.
- Major U.S. investments in 2003 included GE Capital, Busan New Port, and Hanaro Telecom.

### **Overall Economic Conditions**

- South Korea's economy is experiencing a cyclical slowdown, exacerbated by household credit over-extension. Still, the Korean economy may as much as 5% in 2004, hardly a disaster. Perception of economic performance is probably worse than reality, due to low tolerance for unemployment.
- In the medium term, a key concern is that rapid reforms in the financial sector, which happened quickly after the later 1990's financial crisis, have not yet been followed by needed industrial and corporate restructuring. Some corporate governance practices are still outdated.
- Remaining rigidities in the system – in terms of government regulation, labor mobility, and how investment decisions are made – are retarding the kind of free

movement of capital and labor that will allow Korea to complete the leap to join the wealthiest countries in the world.

### **Labor-Management Conflict**

- Accelerating labor-management conflicts are probably the top concern of Korean business and foreign investors.
- Wage increases will need to be matched by increases in productivity. If not, the result could be higher unemployment or a drop in corporate profits and corporate investment. Either would tend to worsen the current cyclical slowdown.

### **Bilateral Economic Issues**

- Most of our bilateral disagreements are in areas where Korean government economic regulation has not kept pace with the changing times. In some areas, such as telecommunications and pharmaceuticals, the government sometimes stifles market signals. In others, such as protection of intellectual property, government regulatory enforcement needs to be strengthened.
- In all areas, regulatory transparency is a key concern.
- **Telecommunications:** The telecommunications sector is a key market for U.S. exporters. However, recently Korean government interference in emerging technologies, using standards to dictate market outcomes, is becoming a major concern.
- **Intellectual Property Rights:** Korea was moved to the Special 301 Priority Watch List in early 2004. Despite some improvements in copyright laws and enforcement, concerns remain over protection for sound recordings in a digital environment and preventing piracy of films and videos.
- **Autos:** In 2003, Korean consumers bought 19,164 imported cars (3,132 made in the United States) while exporting 724,459 to the U.S. Tariffs and taxes on imports remain high, but another big barrier to sales is public perceptions.
- **Agriculture:** Market access issues with rice, high tariffs and Doha Round WTO negotiations remain high priority issues, although there is some improvement. Problems with sanitary and phytosanitary testing impede imports.
- **Pharmaceuticals:** Slow progress is being made in increasing transparency in pricing and approval systems for research-based pharmaceuticals.
- **Bilateral Investment Treaty:** Negotiations have been stalled for several years due to a Korean government "screen quota" mandate requiring that domestic films be shown on all screens at least 40% of the days each year.

